DATE: February 24, 2020

SUBJECT

FY 2019-20 Mid-year budget update and proposed process for development of the FY 2020-21 budget

RECOMMENDATION

1. Accept an update on the FY 2019-20 budget and provide direction on the recommended approach for development of the FY 2020-21 budget;
2. Adopt a resolution amending the City’s Classification and Salary Plan to reinstate the Assistant to the City Manager classification;
3. By motion, approve staff position reclassifications;
4. By motion, establish June 22, 2020 as the date on which the City Manager shall submit a proposed budget to the City Council; and
5. By motion, approve the dates for City Council action on the FY 2020-21 Budget as set forth in this staff report.

STRATEGIC PLAN GUIDING PRINCIPLE

Excellence in Government Operations

BACKGROUND

The Mid-Year Budget Study Session provides an opportunity for the City Manager and staff to update the City Council on the major financial factors affecting the City’s current fiscal year budget, and make recommendations for developing next fiscal year’s budget.

The major components to this staff report include the following:
1. **FY 2019-20 Mid-Year Budget Update – General Fund and Capital Improvement Program Fund**

   This portion of the staff report includes highlights of FY 2019-20 budgetary performance based on actual results through December 31, 2019, including both the General Fund and Capital Improvement Program Fund. A separate staff report is included on tonight’s City Council consent agenda for the FY 2019-20 Mid-Year Budget Amendments in both the General Fund and Capital Improvement Program Fund.

2. **Economic Update**

   An economic update on federal, state, and local trends provides context for the Preliminary Ten-Year General Fund Forecast.

3. **Preliminary Ten-Year General Fund Forecast**

   This section discusses significant factors affecting the General Fund’s major revenue sources (property taxes, sales taxes, transient occupancy taxes, development-related revenue, and other significant revenue sources) and expenditures (in particular, increasing payments for pension and retiree health benefits). The Preliminary Ten-Year General Fund Forecast is included as Attachment 1.

4. **Update on Activities Implementing the Strategic Plan**

   This section describes the City’s Strategic Plan. At the January 13, 2020 City Council meeting, the City Council adopted an updated Strategic Plan that reaffirmed three Strategic Priorities (Housing, Transportation, and Children and Youth), and established nine Guiding Principles. Attachment 5 provides a comprehensive update on the status of current-year activities which advance the City’s Guiding Principles.

5. **FY 2020-21 Budget Development**

   This portion of the staff report details principles and key milestones for developing the FY 2020-21 Recommended Budget. The Strategic Priorities and Guiding Principles established January 13, 2020 will be used to guide development of the FY 2020-21 Recommended Budget.

   As part of this report, staff seeks City Council approval on the process and policy direction for development of the FY 2020-21 budget.

**ANALYSIS**

The City Council has a history of taking intentional, proactive, and strategic steps to ensure fiscal sustainability, including adopting a structurally balanced annual budget, funding long-term needs, and maintaining a 15 percent General Fund reserve level.

City leadership has acted to strengthen the City’s financial position, increase transparency and enhance operating efficiencies. Recent efforts include:

- Developing a Ten-Year Forecast to provide a longer-term roadmap to financial sustainability
• Adopting an aggressive pension plan funding strategy that includes making additional annual contributions directly to CalPERS over the next 18 years to accelerate the unfunded liability payoff period, saving the City approximately $38 million in interest
• Adopting a strategy of dedicating 80 percent of any fiscal year-end net operating balance towards paying down the City’s pension liabilities, with 20 percent of any fiscal year-end operating balance going towards the City Council priorities
• Continuing to contain costs through efficiencies, partnerships, shared services, and innovative operational improvements
• Analyzing the possibility of new revenue sources
• Implementing the budget module of OpenGov, an online platform that provides detailed and transparent budget information
• Implementing an online platform for business license and transient occupancy tax compliance tracking, notification, and online payment processing
• Engaging the Government Finance Officers Association to perform a best practices review of the City’s financial processes and procedures prior to implementation of the City’s new financial management system
• Streamlining the development of the Capital Improvement Program in an effort to provide a more realistic and financially viable roadmap of the City’s capital needs
• Paying down pension liabilities by making additional direct payments to the California Public Employees Retirement System (CalPERS) beyond the annual amount owed, and making additional contributions to the City’s Section 115 Pension Trust account to pre-fund the City’s pension obligations

All of the sections outlined below reflect efforts underway to maintain the fiscal health of the City, while at the same time supporting numerous initiatives to advance the City Council’s Strategic Plan.

FY 2019-20 MID-YEAR BUDGET UPDATE – GENERAL FUND

Revenue Update

FY 2019-20 General Fund revenues and transfers in are budgeted at $158.8 million, and are now estimated at $165.3 million, resulting in a positive variance of $6.5 million. This variance is primarily attributed to $2.9 million in higher than expected sales tax revenue, $1.5 million in increased charges for services, $800,000 in increased interest earnings, $800,000 in recreation program revenues, and $400,000 in increased property taxes, including development fees.

Sales tax, which represents 21.4 percent of General Fund revenue, is exceeding budget by $2.9 million, or approximately 8.9 percent. This is largely due to higher than expected district sales tax receipts as a result of the half-cent sales tax increase passed by the voters in November 2018 (Measure RR).

Property taxes, which represent 38.6 percent of General Fund revenue, are expected to increase modestly by $400,000, or 0.6 percent, as compared to the adopted budget. Property tax in-lieu of vehicle license fees is expected to be lower than budget by $1.9 million due to a countywide decrease affecting all cities in San Mateo County, and secured and unsecured property taxes are expected to be slightly
lower than budget by $600,000. These decreases are offset by $2.9 million in higher than expected Educational Revenue Augmentation Fund (ERAF) payments received.

Interest earnings are expected to exceed the adopted budget by $800,000, or 130.7 percent. The City has historically budgeted a minimal amount of interest earnings. However, in recent years, due to an increasing cash and investment balance and an increase in the rate of return on investments, the City has realized higher interest earnings. This trend is expected to continue in the near future, but could partially be offset by lower fair value adjustment calculations at fiscal year-end, due to recent softening in the rate of return in investments.

Charges for Services are expected to exceed the adopted budget by $1.5 million, or 8.7 percent. A number of the development-associated fees are estimated to be higher than expected in the Charges for Services category, and include planning and engineering fees and plan check fees.

Recreation program fees are expected to exceed the adopted budget by $800,000, or 37.1 percent, primarily due to an increase in recreation fees, an increase in enrollment for classes, and a change in the way participants are charged for various programs.

Expenditure Update

General Fund expenditures and transfers out are budgeted at $153.5 million, and are now estimated at $164.4 million, an increase of $10.9 million.

Given higher-than expected revenues, staff recommends $9.4 million in expenditures to advance City Council priorities. Significant expenditure categories include:

- $4.5 million towards unfunded liabilities:
  - $3.0 million in direct payments to CalPERS to reduce the City’s pension liability and continue progress on the second year of the 18-year pension liability payoff plan
  - $1.5 million towards necessary improvements identified in the Americans with Disabilities Act (ADA) Transition Plan
- $2.0 million towards transportation and roadway projects
- $1.5 million towards mid-year budget amendments (on 2/24/20 City Council consent agenda)
- $1.0 million towards climate adaptation initiatives
- $350,000 towards operating department innovation initiatives to increase staff capacity

Mid-year budget amendment requests for a $1.5 million increase in operating appropriations are included on the consent calendar for City Council approval. Requests include the following: grant spending; appropriations for professional and contract services; salary costs as a result of the increase in the minimum wage rate; and water costs for irrigation related to dry weather conditions.

FY 2019-20 Year-End Estimated Operating Balance

The FY 2019-20 year-end adopted budget operating balance was projected to be $5.3 million, and the estimated operating balance is now estimated to be approximately $916,000. The City Council adopted
a strategy to use 80 percent of any fiscal year-end operating balance on liabilities, and 20 percent towards City Council priorities.

Staff will continue to refine fiscal year-end projections in the coming months. Based on the efforts to refine the budget both last fiscal year and this current fiscal year, staff does not anticipate significant year-end budget amendments.

Staff will recommend specific use of these funds with the FY 2020-21 Recommended Budget.

**FY 2019-20 MID-YEAR BUDGET UPDATE – CAPITAL IMPROVEMENT PROGRAM (CIP)**

The FY 2019-20 adopted and amended budget includes $24.8 million in new CIP funding for 54 projects, not including administrative unallocated staff costs.

Over the first half of the fiscal year, staff has made steady progress on a range of capital improvement projects spread out over ten functional areas. As of January 2020, FY 2019-20 CIP expenditures across all active projects reached $16.7 million.

To provide a more robust picture of the capital projects, all active projects total $152.1 million over 166 projects. Many of these projects carry over many years.

The graph below provides a summary of mid-year FY 2019-20 CIP expenditures by functional area.

A new position of CIP Manager was created in FY 2018-19 to increase efficiency of CIP related processes; identify additional capital project funding sources; develop a collaborative internal system for tracking potential capital projects in the Five-Year CIP; and review projects currently in the Five-Year CIP with the
intention of removing non-critical and dormant projects. Additionally, in an effort to implement best practices and to streamline the Five-Year CIP process and procedures, several initiatives will be implemented with the development of the FY 2020-21 budget, including introduction of a software system to systematically track and report capital projects.

CIP Project Milestones

Updates on a few major projects in each category of the CIP are provided below. A comprehensive update on the entire CIP will be provided on May 4, 2020, when staff will seek City Council direction on updating the Five-Year CIP.

Facilities

Though design phases for City Hall security upgrades were completed on schedule, Public Works Services staff has faced repeated difficulties over the last few months securing contract services. As a result of a healthy economy, many contractors have indicated they are completely busy until early 2020, with no capacity to take on new work until then. Staff are working diligently to implement facility improvements as soon as possible. Public Works Services will continue to provide updates as information becomes available and the exact timeline begins to take shape.

Parking

Last year, shared parking agreements were executed with developments at 851 Main and 2075 Broadway. These agreements will add 396 downtown parking spaces to the public parking supply for nights and weekends once the projects are completed in 2020. As part of the agreement with the development at 2075 Broadway, the developer agreed to make available at least 20 monthly passes for nearby residents of the senior and low-income residential properties.

Redwood City Improvement Association’s consultant for the parking guidance system completed its design and specifications for a parking guidance system. Staff expects to release a request for proposals for the parking guidance system in February 2020. In fall 2019, the vendor that provided the parking occupancy signs outside the Downtown garages went into bankruptcy and is no longer supporting the system. A replacement of the parking occupancy system has been incorporated into the parking guidance request for proposal. Staff are coordinating with potential replacement vendors to run a pilot of their systems. The pilot is scheduled to start by the end of February 2020.

Parks

A major ongoing project is construction of the Magical Bridge Playground. From November 2019 to date, there have been over 100 inclement weather/poor soil condition days which have delayed the completion of the project. Construction on the project continues with the estimated completion date in spring 2020.

Hoover Field was the most recent synthetic field to be replaced as a part of the Synthetic Turf Replacement program. Nearly ten years old, the field was replaced in the summer of 2019.
The Design Development (DD) and Construction Documents (CD) for Phase I of the Veterans Memorial Senior Center-YMCA Project have been completed by ELS Architecture. Phase I includes the Veterans Memorial Building/Senior Center, the promenade, and the east parking lot. The City Council approved the environmental certification and the overall Project at their meeting on December 16, 2019. General obligation bonds are expected to be issued for the project in April 2020.

The City Council accepted the Downtown Parks Site Assessment and Feasibility Study and approved moving forward with creating a corridor of parks and open space at three sites: Roselli Garden/Library Parking Lot A, a portion of the Main Street/City Hall Parking Lot, and the Bradford/Redwood Creek trail to link with the Bay Trail. Staff has created qualifications for architectural services to also include major public outreach and design/visioning components, along with conception designs and construction documents. Staff expects that a consultant firm will be selected and under contract with the City in spring 2020, with the launch of the public engagement process in summer 2020.

The City received formal approval from the Bay Conservation Development Commission (BCDC) to proceed with the construction documentation phase for the Pirate Ship Imagination Art Space, adjacent to the Redwood Shores Library. Staff expects that this next phase will be completed by the end of summer 2020 with potential construction to begin in fall 2020.

**Sewer**

Over two miles of sanitary sewer pipeline is being replaced as part of the Collection System Replacement Program this fiscal year. Construction began in September 2019 and is scheduled for completion by March 2020.

Meanwhile, construction improvements to two sanitary sewer lift stations, Pump Stations 18 & 20, are scheduled to be completed by February 2020. Annual flow monitoring of the sanitary sewer collection system began in late December 2019, with flow monitoring at the ten locations completed by February 2020. The comprehensive Sanitary Sewer Master Plan is underway with a draft Master Plan expected by the end of the fiscal year.

Over one hundred thousand linear feet of sewer pipelines will be video inspected commencing in February 2020.

The sewer pumps to Pump Stations 25, 14, and Seaport Pump Station 2 were rebuilt to extend the service life and efficiency of those stations. The rebuilt pump stations decrease the time staff respond to alarms and de-ragging of the pumps.

**Storm Water**

The Bayfront Canal and Atherton Channel project design is almost complete and staff is pursuing regulatory permits. After all necessary permits and funding are obtained, construction can begin with the Bayfront Canal, currently anticipated to begin in later 2020.

Staff submitted a grant application to the California Governor’s Office of Emergency Services (Cal OES) and the Federal Emergency Management Agency (FEMA) to improve reliability and capacity of the City’s storm water pump stations. The grant is currently under review for a possible award.
Technology

The replacement of the citywide finance and human resource management system continues to progress. This includes replacement of the utility billing, budgeting and planning, and business license and transient occupancy tax systems, as well as the procurement of a new performance measurement system. HdL, the business license and transient occupancy tax system, went live July 2019. OpenGov’s budgeting and planning software went live January 2020. TruePoint’s selected utility billing software is anticipated to go live June 2020. Oracle, the City’s selected finance and human resource management system is anticipated to go live July 2020 for Finance functions and January 2021 for HR functions.

IT staff continues maintaining and improving the City’s technology infrastructure including increasing the City’s access security and recoverability strategies given the exponential increase in ransomware and other nefarious attacks aimed at government systems at all levels. Other notable changes include an increase of the City’s internet connection speed to accommodate the increase in cloud applications, the replacement of the virtual server infrastructure in the Police Department data center, an upgrade of the City’s phone system, the implementation of OnBase, the City’s new contract management system, and installing audio/visual equipment in all City Hall conference rooms.

Transportation

Progress has been made on multiple projects on Middlefield Road. The Middlefield Road/Woodside Road pedestrian improvements are complete and are being well used by the community. Construction on the utility undergrounding project is 95 percent complete. Utilities are expected to take roughly one year to move their lines underground. The streetscape project is also underway and will take another year.

Design is progressing on the Highway 101/84 Interchange Project. Staff is focused on developing the funding plan and getting funding commitments for construction in order to start work on required right-of-way acquisition.

Construction is complete on Safe Routes to School improvements at five elementary schools and around Kennedy Middle School. Improvements include bulb outs, medians, and a beacon system to increase safety for residents crossing Alameda de las Pulgas at Goodwin Avenue.

Staff submitted applications for the US-101 Pedestrian Undercrossing Project to four regulatory agencies prior to July 1, 2016, and received all necessary approvals as of September 2018. The plans and specifications for the project were completed shortly after, and the project bid closed on January 30, 2019. Construction began in the spring of 2019 and is expected to be completed in late fall 2020.

Water

Construction for the California Water Tank is underway, which consists of constructing a new 750,000 gallon water tank. It is anticipated to be complete by spring 2022.

Staff had a bid opening for the Peninsula Water Tank No. 2 project in July 2019, but had to seek City Council’s approval to reject all bids in August due to all the bids coming in over budget for the project. The request was approved and the project has been rebid. Staff anticipates seeking City Council’s approval to award construction of the project in spring 2020.
ECONOMIC UPDATE

The economic conditions discussed below help inform the Preliminary Ten-Year General Fund Forecast. Of note is the near certainty of a recession during the Ten-Year Forecast period. However, it is unknown when this may occur, therefore, periods of slow growth have been projected in the outer years of the Preliminary Ten-Year General Fund Forecast at this time. This is slightly different than the Ten-Year General Fund Forecast presented in the FY 2019-20 Adopted Budget that contemplated an economic downturn during FY 2020-21. Staff has received information from a variety of sources, including the California Legislative Analyst’s Office, Beacon Economics, and academic staff of the UCLA Anderson Economic Forecast.

National

In July 2019, the current economic expansion became the longest in U.S. history, exceeding the previous record of 120 months (March 1991 through March 2001). Gross Domestic Product (GDP) continued growing through the third quarter at a rate of 2.6 percent. This is especially significant considering several major events that occurred recently – the strike at General Motors and the grounding of the Boeing 737 MAX. Consumers are driving the economic expansion with robust growth in income and in spending. According to information released by the Bureau of Economic Analysis in December 2019, Personal Consumption Expenditure (PCE or consumer spending) was at $14.7 trillion as of the third quarter, while GDP was at $21.5 trillion for the same quarter. This indicates that consumer spending generated 68 percent of the GDP. More than two-thirds of this spending was on housing, health care, and other similar services. More than one-fifth was spent on non-durable goods such as food and clothing. The remainder was spent on durable goods, such as cars and furniture. According to Census Bureau data, retail sales grew by 4 percent over the same quarter last year. Since consumer spending is such a large component of GDP and since PCE is reported monthly, this can be a good indicator of that quarter’s GDP. Not surprisingly, the unemployment rate in December 2019 was 3.5 percent, the lowest since December 1969.

Stock prices have also been climbing. Yields on long-term government bonds, which reflect expectations for growth, are also rising. Several months ago, the yield curve had become inverted, meaning that the interest rates on 3-month Treasury notes was higher than on 10-year government bonds. Often, this circumstance can be a reliable predictor of a coming recession. However, the yield curve has since corrected and returned to normal.

Continued GDP and labor force growth is expected to result in a further decline of the unemployment rate to 3.4 percent by the second half of 2020, where it is projected to remain for four consecutive quarters before gradually rising to above 4 percent by 2023.

While there is no immediate concern that a recession will occur within the next 12 months, there are indicators that the economy’s growth is slowing. According to CNN Business, analysts and investors expect the economy to continue to slow through the first part of 2020. The risks of at least one quarter of negative growth are rising; two or more consecutive quarters of negative growth signal a recession. A recent U.S. Commerce Department report discusses the slowing economy and attributes the causes to
the waning economic boost from the tax cuts and the pain of trade wars inflicted, in particular, on the manufacturing sector, farmers, technology companies and retailers.

Businesses see lower demand in the “global picture” because of the trade wars, which can cause uncertainty. The speculation regarding the trade wars and the potential next moves generate concerns regarding the costs of continuing to do business with countries imposing large tariffs on exports to the US and on the US imposing tariffs on goods imported from other countries. Economists have estimated that the costs of additional taxes paid on imported goods costs businesses and consumers approximately $3 billion per month. There are no clear-cut answers regarding these obstacles but, ultimately, economists agree that depressed demand for goods is a likely result of the trade wars.

State

The Legislative Analyst’s Office (LAO) of the State of California annually prepares the State Fiscal Health Index (Index) to track the strength of the economic indicators relevant to the State’s fiscal health. This index combines ten key data points: home prices, home sales, residential and commercial building permits, venture capital funding, unemployment insurance claims, CalFresh claims (formerly known as Food Stamps), port traffic, new car sales, and the S&P 500 stock market index. With the exception of the last indicator, all of the data is specific to California. The Index will indicate the strength of the state’s economic conditions relevant to the state’s fiscal health. When the Index is high, revenues tend to be high compared to historical norms. When the Index is increasing, state revenues are likely to continue to increase over the next six to twelve months. Conversely, when it is decreasing over several months, typically, this has signaled that the state is entering an extended period of revenue weakness.

As of November 2019, the Index remained high, at 95 percent. This result is higher than 95 percent of the months in the historical record. However, it has been declining since April 2019. Notably, a decline of this length has not been observed since the Great Recession. Several factors are leading to the weakening of the Index: stagnant housing markets, slowdown in port activity due to the slowdown in trade activity, slowdown in new car sales, and reduced venture capital investment activity.

Even so, California’s economic growth is the strongest in the nation and the fifth largest in the world. As with the rest of the nation, California’s unemployment rate has continued to fall, averaging a record low of 3.9 percent in November 2019. At the same time, California personal income is projected to grow at around 4 percent per year. Governor Newsom’s proposed 2020-21 State budget continues to grow the Rainy Day Fund, with a projected balance of $18 billion in 2020-21. Lastly, initiatives related to homelessness, health care, and education will be funded through a $5.6 billion surplus.

Several factors such as the low unemployment rate and the robust growth in the stock markets, signal continuing economic expansion. These factors are providing a somewhat mixed message regarding the condition of California’s economy. According to the LAO, while not imminent, the risk of a slowdown, but not necessarily a recession, in the coming year appears higher than it has been for some time.

Local

The regional economy (San Francisco Bay Area) is very robust. According to the California Employment Development Department, as of December 2019, the preliminary unemployment rate in San Francisco-
Redwood City-South San Francisco Metropolitan District was 1.8 percent, down from 1.9 percent in November 2019 and below the December 2018 rate of 2.1 percent. This is essentially full employment.

According to the Bureau of Labor Statistics (BLS) Western Information Office, wages and salaries for the San Jose-San Francisco-Oakland area for the 12-month period ended September 2019 advanced at a rate of 2.9 percent, as compared to 3 percent for the nation for the same period. Between December 2017 and December 2018, the total number of jobs in the area increased by 2.5 percent, or 28,900 jobs. The Bay Area economy is ranked nineteenth in the world with a GDP of $748 billion. At $74,815, the Bay Area has the highest GDP per capita in the United States and ranks ahead of global peers such as London ($56,997) and Singapore ($43,867).

According to the siliconvalleyindicators.org, in the Silicon Valley region (Santa Clara and San Mateo counties), the median household income was $125,987 in 2018 (latest available numbers). California overall had a median income of $75,277, while the nationwide median household income was $61,937. The per capita income in Silicon Valley was $113,141, compared to $63,557 for California, and $54,446 nationwide.

According to the BLS, the average annual spending on housing (rent and mortgage) in the San Francisco area is over 39.4 percent, compared to the national average of 33.0 percent. Of the 22 major metropolitan areas cited in the BLS data, this average annual spending percentage is the highest, exceeding New York and Honolulu. The median home price in Redwood City is $1.5 million, and average monthly rent is approximately $3,500.

According to the DataUSA, as of 2018, the owner-occupied housing rate was 60.5 percent, compared to the national average of 63.9 percent. In the Bay Area, domestic migration has turned increasingly negative since 2013. During 2018, total domestic migration decreased population by just over forty thousand people. Economist Steven Levy attributes this movement to the high housing prices forcing some residents to leave the region. It should be noted that, while overall net migration to the Bay Area remains positive (due primarily to foreign immigration), the rate of positive migration has been declining since 2013. While the San Francisco Bay Area economy remains strong, there is concern that the soaring costs of housing are threatening the area’s economic diversity as more and more people leave the region.

For these reasons, it is important for the City to take a forward-thinking, long-term approach to mitigating the City’s financial liabilities and proactively prepare for future recessionary impacts that loom on the horizon.

**PRELIMINARY TEN-YEAR GENERAL FUND FORECAST**

The Preliminary Ten-Year General Fund Forecast is included as Attachment 1.

Major factors contributing towards the forecast are detailed below. Staff is working closely with the City’s revenue consultants on possible recessionary factors and is keeping abreast of any changes that may occur. This forecast will be refined by staff over the next few months as more information is known, and an update will be included with the FY 2020-21 Recommended Budget.
**Net Budget Position**

The Preliminary Ten-Year General Fund Forecast projects net operating balances in the next two fiscal years, with a budget deficit to begin in FY 2022-23 and increase annually over the Forecast timeframe. This is due to expenditures increasing at a higher rate than revenues, primarily driven by pension obligation costs.

As shown in the graph below, without any adjustments to current operating costs or revenue sources, the annual budget deficit is projected to be a nominal $120,000 in FY 2022-23, but grow to approximately $28.0 million in FY 2029-30.

Because of the projected deficit, the City will need to continue to explore all possible financial strategies, including operating cost reductions and revenue enhancements. The City Council Finance/Audit Subcommittee continues to discuss opportunities to increase revenues in the future, including a potential restructuring of the business license tax, an increase in the transient occupancy tax (hotel tax) rate, and allowing storefront retail cannabis outlets.

**Revenue Projections**

Actual estimated revenues in FY 2019-20 are outpacing the adopted budget revenues. Continued growth is expected, but at a much slower pace over the ten-year period. The City’s primary revenue sources are property tax (38.6 percent of revenue) and sales tax (21.4 percent of revenue). Projections for these and other revenue sources are described below.
Taxes

Overall, property taxes are expected to decrease by $3.8 million in FY 2019-20 when compared to FY 2018-19 actual revenues. This is due to the unexpected receipt of an early distribution of Educational Revenue Augmentation Fund (ERAF) revenue during FY 2018-19 in the amount of $3.6 million.

The $3.8 million decrease from FY 2018-19 actual revenues to FY 2019-20 estimated revenues is comprised of an increase of $800,000 in secured and unsecured property taxes and an increase of $500,000 in downtown property taxes, offset by a decrease of $3.9 million in ERAF revenue and a decrease of $1.4 million in property tax in lieu of vehicle license fees. Staff engaged a property tax consultant to prepare a forecast of future revenues, and it is expected that in subsequent years the property tax revenue category will have modest growth annually. This growth is primarily due to increased assessed valuations on improved properties. Although approval of additional development in the downtown area has slowed recently as caps established in the Downtown Precise Plan have been reached, development of this area has been robust in recent years.

Typically, it will take approximately 18 to 24 months for new construction or redevelopment to appear on the tax rolls. As a result, the City will continue to see increases in downtown property tax revenues for several years as these new developments are completed, assessed, and included on the tax rolls.

The residential housing market in Redwood City also remains very desirable. Due to this favorable environment, the current median home sales price in the City is approximately $1.5 million. When a home is sold, property tax is calculated on the new assessed value that is based on the sale price. As home values increase and properties are sold, property tax revenues also increase.

As mentioned above, the City also receives property tax revenue from the State’s Educational Revenue Augmentation Fund (ERAF). ERAF is a mechanism enacted in 1992 by the State Legislature to shift local tax revenues from cities, counties, and special districts to a State-controlled fund. The State uses this fund to reduce its obligation to the schools. The State is now reimbursing local agencies for those prior payments. Budgeted revenue estimates assume a conservative $4.2 million will be received in excess ERAF revenue annually, as the City has long been advised that these funds will not continue long-term, as this revenue is very vulnerable to changing laws and to changing school funding formulas. The FY 2019-20 forecasted ERAF revenue is expected to be approximately $7.1 million. ERAF projections for FY 2020-21 and beyond are estimated to be $4.2 million.

Sales tax revenues account for approximately 21.4 percent of the City’s General Fund budget. The City is currently experiencing an increase in sales tax revenue as a result of higher than expected district sales tax revenues collected. In November 2018, Redwood City voters approved Measure RR, a one-half percent sales tax increase, effective on April 1, 2019. At the same time, the voters also approved a countywide transportation related one-half percent sales tax, which increases the total sales tax rate in the City from 8.75 percent to 9.75 percent. Due to the lack of historical data, the City conservatively budgeted a sales tax increase due to the additional one-half percent sales tax percent of approximately $8.7 million for FY 2019-20. The City’s sales tax consultant, MuniServices, has since revised that estimate as a result of actual sales tax revenues being generated. The revised FY 2019-20 estimate is approximately $10.7 million.
Overall, there is a concern in the long-term health of sales tax revenue. Changing consumer preferences and purchasing habits affect City sales tax revenues as well. Digital downloads (software, music, movies) are not taxable transactions. Younger consumers tend to purchase “experiences” (generally not taxable), rather than goods, which has a negative effect on sales tax revenue. Digital devices have emerged as the growth engine for all retail sales, which has led to extreme price awareness and, most importantly, online purchasing.

Burgeoning trends toward online purchasing impact the City’s sales tax revenue. Goods sold to Redwood City customers from out of state retailers generate use tax revenues, which are remitted to the county pool. In turn, county pool revenues are then distributed to all jurisdictions within the county. Goods sold at physical establishments located in Redwood City generate sales tax revenues, which are remitted directly to the City of Redwood City. Ultimately, increasing online sales will reduce local sales tax revenues.

The U.S. Supreme Court’s ruling in Wayfair v. South Dakota allows states more authority to require out-of-state sellers to collect use tax. Beginning in April 2019, if an out-of-state retailer has California sales of more than $100,000 or 200 separate transactions, the California Department of Tax and Fee Administration requires the retailer to collect and remit use tax. For FY 2019-20, an estimate of $525,000 is included in the forecasted sales tax revenue.

Transient Occupancy Tax (TOT) revenues are expected to flatten in FY 2019-20. Although the TOT revenues received year-to-date are slightly less compared to the same time period last year, it is still within the range of the historical average projection. TOT revenues experienced a healthy growth during FY 2018-19. The slight decrease during the first and second quarters of this fiscal year may indicate the revenue has peaked and the growth is starting to slow down. Limited data is available for projections at this time, and for that reason, the projection for FY 2020-21 includes a conservative 1 percent increase and the projection for FY 2021-22 is flat. A planned major hotel, estimated for completion in 2021, should generate additional TOT revenue. Even so, in anticipation of a possible recession, the TOT projections remain conservative.

Utility Users’ Tax (UUT) revenue is expected to decrease by 6 percent in FY 2019-20. Beginning FY 2020-21, UUT revenue stream will continue to slowly decrease. The significant decrease in revenue is seen in wireless telecommunication segment. As wireless telecommunication services become more of a commodity item, service plan rates have become very competitive, offering more services at lower rates. As a result, it is prudent to forecast conservatively for future UUT revenue. By City Council policy, UUT revenue has been dedicated to capital projects and is not reflected in the chart below depicting major General Fund revenue sources.
Development Fees

Development-related fees are used to recover the cost of staff and consultant time to process development applications. The City Council updated these fees in 2017 and 2018. Budgeted revenue for development fees is on par with current estimates. There has been relative stability of development demand in the past five years, and with no clear signs of a significantly declining economy, staff estimates development fee revenues to be slightly higher in FY 2019-20.

However, projecting for a ten-year forecast period will be dependent on upcoming City Council policy decisions. The City Council’s creation of a vision for development in the core of Redwood City and development of criteria to prioritize future projects will have an impact on development fees. Additionally, projections must take into consideration market trends and state of the economy. Currently, the City is projecting development fees to stay relatively flat over the next ten years. These projections will be updated following the completion of the Central Redwood City Vision.

Cannabis

The Cannabis Business Tax ordinance became effective and the assessment of the tax began on January 1, 2019. The Cannabis Business Tax applies to City approved cannabis business activities: 2.5% of gross receipts for Cannabis Nursery Businesses; and 4.0% of gross receipts for Cannabis Retail Business Sales. As of December 2019, one cannabis business was approved as a cannabis delivery center (non-storefront retail) and five other cannabis businesses have been approved with conditions. Staff will have a better idea of the amount of potential revenue that will be generated as businesses begin to operate in 2020 and taxes are remitted to the City over the next year.
At the City Council’s direction staff are seeking community input on potential regulations for storefront retail cannabis sales. The City Council will consider such regulations later this fiscal year. Based on typical cannabis retailers in California, staff estimates that allowing storefront cannabis sales could generate between $300,000 to $1 million in additional annual revenue for the City.

**Expenditure Projections**

Rising employee-related costs, due primarily to escalating payments to fully fund benefits for already retired employees, are the most significant contributor to rising expenditures. The Preliminary Ten-Year Forecast does not include increases to ongoing staff. This section provides information about the City’s status and strategy for addressing pension costs and other employee-related costs.

**Pension Liabilities**

As shown below, pension benefits are funded by a combination of employer contributions, employee contributions, and investment earnings on those contributions.

Based on data over the past 20 years ending June 30, 2019, for every dollar CalPERS pays in pensions:
- 58 cents comes from investment earnings
- 29 cents from employer contributions
- 13 cents from employee contributions

Essentially, 71 cents out of every public employee pension dollar is funded by CalPERS’ investment earnings and employee contributions, with employers making up the difference. In the fiscal year ended June 2019, CalPERS paid out nearly $24.2 billion in pension benefits.

When there is a gap between the assets available to fund benefits, and the assets needed to fund benefits, the City must make up the difference. Currently, about 20 percent of the City’s General Fund goes towards paying for pension benefits; this amount will grow to 24 percent over the next five years, as required City pension contributions ramp up to fully fund benefits for already-retired, as well as current employees.
The City’s most recent actuarial report from the California Public Employees’ Retirement System (CalPERS) indicates that the City has an unfunded pension liability of $264.5 million as of June 30, 2018, up from $242.0 million a year prior, an increase of 9.3 percent. Additionally, the City has a retiree health liability of $49.5 million. The City’s total unfunded pension and retiree health liability is $314.0 million.

A majority of the increase in the City’s unfunded pension liability is due to the lowering of the CalPERS assumed rate of investment return (otherwise known as the discount rate) to 7.0 percent in FY 2018-19. CalPERS modified its investment strategy to a more conservative approach to reduce the likelihood of investment volatility. This is needed to ensure there is cash on hand to pay benefits statewide and to reduce the chance the public agencies will have to fill large gaps when investment returns do not meet projections.

CalPERS has implemented a new actuarial valuation software system for the June 30, 2018 valuation. With this new system, CalPERS has refined and improved the calculation methodology. Any difference in liability between the old software and new software calculations is captured as a method change line item. For the June 30, 2018 valuation, this method change had a negative impact on the City’s pension liability of $3.5 million.

The City’s unfunded pension liability is primarily related to retired or inactive (employees not currently employed by or retired from the City) employees: 52% of the unfunded liability for the miscellaneous plan (non-safety employees) is associated with retired or inactive employees, and 71% of the unfunded liability for the safety plan (safety employees) is associated with retired or inactive employees.

The City is not unique in facing these pension challenges, and public agencies across the state, including school districts and state agencies, are facing increasing pension costs. The City began reforming pension benefits in 2011, and statewide pension reform occurred in 2013. Though these efforts provide long-term relief, they are not sufficient to fully fund promised benefits.

Unfortunately, no statewide pension reform measures appear to be imminent. As a result, it is up to local government agencies to absorb steeply increasing contributions and to implement other strategies that will help place their pension plans on sound financial footing.

On July 17, 2018, the San Mateo County Civil Grand Jury (Grand Jury) released a report entitled, Soaring City Pension Costs – Time for Hard Choices, regarding the increasing pension costs of the cities in San Mateo County. The report attempted to address what actions that all the cities in the County can take to meet current and future pension obligations. Redwood City is already undertaking most of these actions.

On July 29, 2019, the Grand Jury issued a follow-up report entitled, Soaring City Pension Costs – Follow-Up on Grand Jury Report of 2017-2018. The objective of this report was to provide an update on the recommendations in the original report and to report on the actions taken by cities located in the County to manage their pension costs and make better information available to the public about the impact of pension costs on long-term financial plans. In this follow-up report, the City was commended for extending the General Fund Forecast from five years to ten years; adding comprehensive pension information to the City’s public website; and making additional pension contribution payments to CalPERS beyond the City’s Annual Required Contribution, thus actually reducing the City’s long-term pension contribution costs.
As part of the follow-up report, the Grand Jury recommended that each City compile three years of historical data and ten years of estimated data that includes pension costs, percent of General Fund, and liability data. This information is contained in Attachment 2.

The City Council has taken a proactive and strategic approach to addressing the City’s pension liabilities. The City implemented a second-tier pension formula in 2011 even before the statewide Public Employee Pension Reform Act (PEPRA) was enacted in 2013. As these newer formulas only apply to recent hires, there has been little immediate impact on the City’s total pension costs. However, such changes will reduce future liabilities and costs over the long-term.

The City has also negotiated cost-sharing agreements with each bargaining group to ensure current employees pay a greater proportion of pension costs. Employees contribute between 8.0 and 18.0 percent of their salary toward their pension benefits, depending on bargaining unit and pension tier. Although these cost-sharing agreements represent important commitments by City employees to help pay for their pension benefits and assist the City in paying the required annual payments to CalPERS, such arrangements do not provide any additional payment toward the City’s unfunded liabilities.

In September 2017, the City Council approved establishing a Section 115 pension trust account with Public Agency Retirement Services (PARS) to pre-fund the City’s pension obligations over time. An initial trust deposit of $10.5 million was made in January 2018, including $8.8 million from the General Fund and $1.7 million from other City funds, as some employees are budgeted in other funds, primarily the water and wastewater utilities. Subsequent deposits totaling $11.65 million, all from the General Fund, have been made through December 2019. As of December 2019, the Section 115 pension trust account was valued at over $23 million.

The Preliminary Ten-Year General Fund Forecast includes General Fund contributions towards the City’s pension liability beyond the required annual payment, including additional direct annual payments to CalPERS of $400,000, and annual contributions of $1.1 million to the City’s Section 115 pension trust account through FY 2022-23. Trust proceeds, including investment earnings, will be used in future years to help pay for increased annual pension costs. Increasing the funds invested in the trust, and maintaining those funds over a longer timeframe, will provide greater resources to pay the City’s pension costs in the future.

The Preliminary Ten-Year Forecast does include an increase in the number of Full Time Equivalent (FTE) positions, as described below. It should also be noted that benefit costs associated with new and existing staff, coupled with liabilities associated with retirees, are expected to increase significantly over the next ten fiscal years.

As shown in the chart below, the City’s annual pension costs are expected to rise significantly over the next decade to pay off the unfunded liability. In ten years, the City’s annual CalPERS payment is projected to be approximately $45.5 million, which is $17.8 million more than it is today, or a 64 percent increase. Notably, these estimates are at a 50 percent confidence level, meaning that there is a 50 percent chance they could be higher or lower.
Accelerating payments toward unfunded liabilities allows the City to realize interest savings over time, much like making additional payments on a home mortgage.

During the FY 2019-20 budget adoption process, the City Council adopted an ambitious pension plan funding strategy to make higher additional annual contributions (beyond the budgeted $1.5 million to the Section 115 trust account and CalPERS) directly to CalPERS over the next 18 years to accelerate the payoff period. This approach is estimated to save the City approximately $38 million in interest payments and allow the City to fully fund pensions approximately three years earlier.

The City Council acknowledged that adopting this strategy would be a challenge, given that it would require greater contributions, even though the annual budget projections indicate a potential deficit for most of the next 18 years. Adopting this goal requires an even stronger commitment to significant revenue increases and cost reductions.

The accelerated 18-year payoff strategy will be revisited as annual contribution projections change and may be altered in future years.

With this strategy, the City’s pension plans are projected to be fully funded in FY 2036-37 instead of FY 2039-40. This could save the City approximately $38 million in interest payments. This is an estimate only, and the City’s interest savings could vary significantly year to year depending on when and how much of the Section 115 Pension Trust proceeds are used.

At this time, it is likely the City will need to use pension trust proceeds in 10 years, when the City’s annual contribution payments are $17.8 million more than what they are today.

In Fiscal Years 2022-23 through 2024-25, the City does not have any estimated additional payments, as certain existing amortization bases will be paid off (amortization bases consist of pension plan...
components used to project the City’s annual unfunded liability). The City’s additional payments would ramp up again in FY 2025-26 as new bases are created. In the Preliminary Ten-Year Forecast, minimum additional contributions of $250,000 have been estimated, as contingency, for the years that additional payments are not required.

The chart below contains annual mandated contribution and additional payment projections at a fixed point in time and are subject to change annually.

Of note, the City will need to evaluate the annual contribution requirement amounts each fiscal year, due to the various factors that can contribute to changes in the required contribution amounts. Factors include the City’s actual prior contributions made to CalPERS, the actual rate of return on investments realized by CalPERS, and any assumption changes implemented by CalPERS.

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Current Projected Contributions</th>
<th>Estimated Accelerated Contributions</th>
<th>Additional Annual Payment</th>
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<tr>
<td>FY 2019-20</td>
<td>$27,737</td>
<td>$30,463</td>
<td>$2,726</td>
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<tr>
<td>FY 2020-21</td>
<td>$30,207</td>
<td>$31,716</td>
<td>$1,509</td>
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<td>FY 2021-22</td>
<td>$33,220</td>
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<td>$268</td>
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<td>FY 2022-23</td>
<td>$35,968</td>
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<td>FY 2023-24</td>
<td>$37,916</td>
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<td>$-</td>
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<tr>
<td>FY 2024-25</td>
<td>$39,636</td>
<td>$39,636</td>
<td>$-</td>
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<tr>
<td>FY 2025-26</td>
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<td>$40,511</td>
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<td>FY 2026-27</td>
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<td>FY 2028-29</td>
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<td>FY 2029-30</td>
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<td>FY 2030-31</td>
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<td>FY 2045-46</td>
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Total $1,034,153 $996,120 $(38,033)

*Dollar amounts are in thousands

The actual timing of the additional payments above would depend on the availability of sufficient funds.
As previously mentioned, the Preliminary Ten-Year Forecast includes a strategy to make annual additional payments to CalPERS of $400,000, and annual contributions of $1.1 million to the City’s Section 115 pension trust account (through FY 2022-23), which can be used to fund the City’s annual payments in future years when revenues are expected to be insufficient to provide for additional annual payments directly to CalPERS. The Preliminary Ten-Year Forecast also includes the additional annual payments directly to CalPERS (in the chart above) to fully fund the pension plans within 18 years.

Other Post-employment Benefit (OPEB) Liabilities – Retiree Health

A second category of retirement-related benefits which impact the City’s finances is the City’s retiree health program. The City currently provides eligible retirees with reimbursement of their medical insurance premiums, subject to their collective bargaining agreement, which includes a maximum reimbursement amount.

In 2010, the City established a Section 115 OPEB trust account through the California Employer’s Retiree Benefits Trust (CERBT) program to fund retiree health benefits. As of September 30, 2019, there was a balance of $39.9 million in the trust account. As of the most recent actuarial report, June 30, 2019, the City’s unfunded liability for these benefits was $49.5 million.

The Preliminary Ten-Year Forecast includes anticipated additional General Fund contributions to the CERBT Section 115 OPEB trust account of $300,000 annually in order to build resources towards paying off the unfunded retiree health liability in future years. This is in addition to $600,000 of FY 2018-19 operating balance that was contributed in January 2020.

Industrial Disability Retirements

Public safety employees who are injured on the job and are thus unable to perform essential job duties may apply for and receive an industrial disability retirement (IDR). The City currently reimburses safety employees who retire on an IDR the amount of $1,859 per month for health plan premiums, which includes medical coverage for the retiree and their family. The family medical benefit is not offered to safety employees who retire on a service retirement related to the years they have worked; those retirees receive health plan premium reimbursement for the retiree only. The City must pay 15 percent of payroll for sworn Police employees, and 10 percent of payroll for sworn Fire employees, to fund retiree health benefits.

Over the last five years, 74 percent of Police Department retirees have retired on an IDR and 53 percent of Fire Department retirees have retired on an IDR. Between 2011 and 2019, Police IDR rates are 215 percent higher than CalPERS actuarial retiree health projections and Fire IDR rates are 126 percent higher than CalPERS actuarial retiree health projections.

The high IDR rates greatly impact the City’s unfunded retiree health liability by increasing the City’s costs. In the spring of 2019, the City and affected public safety bargaining units began working together on IDR Committees in an effort to develop alternative solutions to reduce the City’s retiree health liability as related to IDRs, and the committee’s efforts are still underway.
Workers’ Compensation

Over the last few years, the City has focused on effective workers’ compensation claim management and return-to-work programs, as well as enhancing health, safety, and wellness programs for City employees, with a specific focus on public safety personnel. These efforts have helped reduce the City’s exposure. Based on the most recent actuarial analysis, the City’s total liability is projected to increase by only 1.2 percent, or $310,000, for FY 2020-21. This increase is $2.0 million less than the prior fiscal year’s increase of $2.3 million. Over the last five fiscal years, the total liability amount has been increasing by an average of 6.7 percent, or $1.5 million per year.

The modest increase in the total liability for FY 2020-21 reflects stabilization in loss trends and a decrease in projected exposures (payroll) as compared to the prior year, as well as steps taken by staff to address workers’ compensation claims immediately and increase safety awareness citywide.

Docktown Marina

In December 2016, in response to a lawsuit over residential uses at Docktown Marina, the City Council approved the Docktown Plan, which assists individuals living at Docktown to find new housing. On January 8, 2018, staff provided City Council with an update on the Docktown Plan, estimating the total costs (including provision of relocation benefits, acquisition of property when desired by tenants, capital costs associated with liveaboard uses at the Port’s Municipal Marina, and legal and consultant costs) at $20.8 million, with $13.8 million remaining to be funded. In February 2018, the City Council approved a plan to fund these costs through a combination of FY 2017-18 General Fund operating surplus and short-term loans from the Equipment Replacement Fund ($6.0 million) and the Parking District Fund ($1.7 million) to provide sufficient cash flow to pay relocation costs. At this time, the loans are projected to be repaid by June 2020 and are included in the Ten Year General Fund Forecast. The total cost was estimated at $20.8 million in FY 2018-19. Current expenditures are less than $20.8 million. Staff will assess whether a budget amendment is required during FY 2020-21 to fund any additional costs associated with ongoing litigation.

Changes to Departmental Operations

Library Fines

The Library is proposing to eliminate all daily overdue fines for Library materials, effective July 1, 2020. Library users would still be charged replacement costs for lost, damaged, or long overdue materials, but no daily fines would be charged. Over 100 libraries in the United States have eliminated fines in the last two years, including eleven jurisdictions in the Bay Area. In 2016, the Peninsula Library System, which includes the San Mateo County Libraries system and all seven city-run libraries in San Mateo County, eliminated overdue fines for children and teens, but kept them in place for adults. In the first year after that change, circulation of materials by children and teens increased by 33 percent over the previous year, and library card registrations for children and teens increased by 61 percent over the previous year. In addition, 41 percent of library cards issued to children and teens that had been blocked because of money owed were unblocked. (The remainder were blocked because of replacement fees owed for lost or damaged items, not for daily fines.) The elimination of overdue fines had no noticeable impact on the quantity or timeliness of library materials returned, nor on the availability of current materials.
On January 27, 2019, the governing Council of the American Library Association passed a resolution entitled “Resolution on Monetary Library Fines as a Form of Social Inequity” that established a policy statement “that the imposition of monetary library fines creates a barrier to the provision of library and information services,” and urged libraries to move toward eliminating fines, and urged governing bodies of libraries to strengthen funding support for libraries to reduce the reliance on library fines as a revenue source.

The equity issue is pronounced in Redwood City and North Fair Oaks. In an analysis of cardholder and demographic data by zip code, the percentage of library cards in each zip code blocked because of money owed corresponds directly with both the proportion of Latinx residents and with lower median household incomes. Other library jurisdictions, most notably San Francisco, have conducted in-depth analysis of the distribution of library fines within their communities, and the results have been consistent with our experience – low income residents and communities of color are those whose access to library services is most frequently impeded by overdue fines.

Based on the period from July-December 2019, the current annual revenue from library overdue fines is estimated to be less than $40,000 per year. The increased usage of libraries, public relations benefits, and improved customer service interactions created by the elimination of overdue fines are all positive outcomes that offset this loss of revenue. However, the most compelling reason to eliminate daily overdue fines remains the fact that fines provide an access barrier to those most in need of library services.

Staffing Reorganization

Staff recommended that a 1.0 Full Time Equivalent (FTE) Building Inspector position be added to the budget while eliminating funding for a contract Building Inspector position. This new regular position is necessary because of the difficulty in identifying and retaining qualified staff. Due to consistent development activity in the region and similar needs across cities, the Community Development and Transportation Department has experienced consistent turnover of Building Division staff. Should development activity decrease, the new Building Inspector position could provide additional support to Code Enforcement operations as determined by department needs. A budget amendment will be requested, if needed, during the year-end budget amendment process.

Additionally, due to recent staffing transitions, and to better support the City Council’s Strategic Initiatives, the incumbent Deputy City Manager position is recommended for reclassification to Assistant City Manager, and will oversee priority areas including Housing, Economic Development, Communications/Community Engagement, and other citywide policy initiatives. A budget amendment will be requested, if needed, during the year-end budget amendment process.

Finally, staff recommend updating the Classification Plan to reinstate the classification of Assistant to the City Manager. On December 16, 2019, the City Council approved use of the FY 2018-19 operating balance, distributing 80 percent toward unfunded liabilities and 20 percent toward City Council priorities. One of those actions was to approve funding for two years for administrative support in the City Manager’s Office to advance City Council priority issues, including the top three Strategic Priorities. Staff intends to use these funds for a limited term (two year) Assistant to the City Manager position. This position will work closely with the City Manager, Assistant City Managers, and Department Heads to implement City Council policy directives and assist and participate in the development, implementation, and reporting of related goals, objectives, and policies. To move forward as intended, the Classification Plan must be updated to
reinstate this job classification. A budget amendment will be requested, if needed, during the year-end budget amendment process.

**UPDATE ON STRATEGIC PLAN ACTIVITIES**

On January 13, 2020, the City Council adopted a new Strategic Plan, establishing the top Strategic Priorities as: Housing, Transportation, and Children and Youth. These priorities represent key focus areas selected by the Council in support of the City’s mission of *Building a welcoming Redwood City through collaboration, responsiveness and excellence.*

In addition, the following Guiding Principles were adopted:

- Aesthetics
- Communication and Community Building
- Economic Vitality
- Excellence in Government Operations
- Healthy Community for All Ages
- Housing
- Public Safety
- Sustainability
- Transportation

These nine central principles guide the City’s operations and initiatives. *Attachment 5* provides a comprehensive update on the status of current fiscal year activities to advance the Strategic Priorities and Guiding Principles. Additional updates will be provided with the FY 2020-21 Recommended Budget.

**FY 2020-21 BUDGET DEVELOPMENT**

The consideration and adoption of the City Budget is one of the most important actions that the City Council takes. The budget determines the services the City provides to the community, the staffing of the organization, and sets the amount of funds spent in any given fiscal year.

Staff recommends that the previously-established principles for the City’s operating budget continue to guide development of the FY 2020-21 budget:

- Use ongoing revenue to fund ongoing expenses
- Use one-time revenues for one-time expenses and to pay down long-term liabilities
- Ensure adequate reserves

Based on City Council direction staff will continue to focus on three top priorities for FY 2020-21: Housing, Transportation, and Children and Youth.

Staff recommends the following timeline for the development of the FY 2020-21 Budget; all dates are public meetings of the full City Council and members of the public may participate:

- Community Development Block Grant/HOME Grant Study Session April 27, 2020
FISCAL IMPACT

Staff time required to develop the FY 2020-21 budget is provided within current budget appropriations. Additional budget appropriations are not being requested at this time for the estimated increases in salary and benefit costs related to the proposed staffing reorganization. Staff will propose year-end budget amendments if additional budget appropriations are needed.

ENVIRONMENTAL REVIEW

This activity is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines, section 15378, because it has no potential for resulting in either a direct or reasonably foreseeable indirect physical change in the environment.

PUBLIC NOTICE

Public notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

ALTERNATIVES

The City Council could request that staff develop an alternative funding strategy for the FY 2020-21 budget. The dates provided in this report are recommended by the City Manager and may be changed at the City Council’s discretion. If the staffing reorganization is not approved, staff will need to explore alternative strategies.

ATTACHMENTS

Attachment A - Preliminary ten-year General Fund forecast
Attachment B - Pension data – Historical and Projected
Attachment C - Resolution amending the City’s Classification and Salary Plan to reinstate the Assistant to the City Manager classification
Attachment D - Assistant to the City Manager job description
Attachment E - Mid-year update on major strategic initiatives and goals